MAGNACHIP SEMICONDUCTOR Corp
Form 10-Q
August 05, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2011

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File Number: 001-34791

MagnaChip Semiconductor Corporation

(Exact name of registrant as specified in its charter)

Delaware	**83-0406195**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

c/o MagnaChip Semiconductor S.A.

74, rue de Merl, B.P. 709 L-2146

Luxembourg R.C.S.

Luxembourg B97483

(352) 45-62-62

(Address, zip code, and telephone number, including area code, of registrant s principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. x Yes ¨ No

As of June 30, 2011, the registrant had 39,357,471 shares of common stock outstanding.

Table of Contents

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

			Page No.
PART I FINANCIAL INFORMATION			4
	Item 1.	Interim Consolidated Financial Statements (Unaudited)	4
		MagnaChip Semiconductor Corporation and Subsidiaries Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010	4
		MagnaChip Semiconductor Corporation and Subsidiaries Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2011 and 2010	5
		MagnaChip Semiconductor Corporation and Subsidiaries Consolidated Statements of Changes in Stockholders Equity for the Three and Six Months Ended June 30, 2011 and 2010	6
		MagnaChip Semiconductor Corporation and Subsidiaries Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010	8
		MagnaChip Semiconductor Corporation and Subsidiaries Notes to Consolidated Financial Statements	9
	Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	30
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	51
	Item 4.	Controls and Procedures	51
PART II OTHER INFORMATION			52
	Item 1A.	Risk Factors	52
	Item 6.	Exhibits	67
SIGNATURES			68

Table of Contents

FORWARD LOOKING STATEMENTS

The following Management s Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, that involve risks and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify these statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as anticipate, estimate, expect, project, intend, plan, and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. All statements other than statements of historical facts included in this report that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements.

These forward-looking statements are largely based on our expectations and beliefs concerning future events, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Although we believe our estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management s assumptions about future events may prove to be inaccurate. Management cautions all readers that the forward-looking statements contained in this report are not guarantees of future performance, and we cannot assure any reader that those statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the factors listed in this section and in Part II: Item 1A. Risk Factors in this report.

All forward-looking statements speak only as of the date of this report. We do not intend to publicly update or revise any forward-looking statements as a result of new information or future events or otherwise, except as required by law. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Statements made in this Quarterly Report on Form 10-Q, unless the context otherwise requires, include the use of the terms we, us, our and MagnaChip refer to MagnaChip Semiconductor Corporation and its consolidated subsidiaries. The term Korea refers to the Republic of Korea or South Korea.

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Interim Consolidated Financial Statements (Unaudited)

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited; in thousands of US dollars, except share data)

	June 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 177,764	$ 172,172
Accounts receivable, net	123,792	119,054
Inventories, net	86,826	68,435
Other receivables	4,217	2,919
Prepaid expenses	9,257	8,207
Other current assets	10,724	18,920
Total current assets	412,580	389,707
Property, plant and equipment, net	191,133	179,012
Intangible assets, net	24,177	27,538
Long-term prepaid expenses	6,103	8,235
Other non-current assets	21,260	21,252
Total assets	$ 655,253	$ 625,744
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 73,906	$ 58,264
Other accounts payable	23,098	14,645
Accrued expenses	41,780	32,635
Current portion of capital lease obligations	6,149	5,557
Other current liabilities	4,747	5,048
Total current liabilities	149,680	116,149
Long-term borrowings, net	212,441	246,882
Long-term obligations under capital lease	123	3,105
Accrued severance benefits, net	97,417	87,778
Other non-current liabilities	5,778	8,979
Total liabilities	465,439	462,893
Commitments and contingencies (Note 15)		
Stockholders equity		
Common stock, $0.01 par value, 150,000,000 shares authorized, 39,357,471 and 38,401,985 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	394	384

Additional paid-in capital	97,987	95,585
Retained earnings	126,255	72,157
Accumulated other comprehensive loss	(34,822)	(5,275)
Total stockholders equity	189,814	162,851
Total liabilities and stockholders equity	$ 655,253	$ 625,744

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in thousands of US dollars, except share data)

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net sales	$ 203,679	$ 194,700	$ 391,600	$ 374,185
Cost of sales	137,497	130,166	268,944	260,293
Gross profit	66,182	64,534	122,656	113,892
Selling, general and administrative expenses	17,458	15,964	32,859	33,872
Research and development expenses	20,614	20,543	39,112	41,074
Restructuring and impairment charges	2,475	267	2,475	603
Special expense for IPO incentive			12,146	
Operating income	25,635	27,760	36,064	38,343
Other income (expenses)				
Interest expense, net	(6,369)	(6,557)	(13,480)	(8,606)
Foreign currency gain (loss), net	18,234	(48,273)	39,593	(26,657)
Loss on early extinguishment of senior notes	(4,103)		(4,103)	
Other	203	(950)	369	(1,002)
	7,965	(55,780)	22,379	(36,265)
Income (loss) before income taxes	33,600	(28,020)	58,443	2,078
Income tax expense	1,970	2,727	4,345	1,724
Net income (loss)	$ 31,630	$ (30,747)	$ 54,098	$ 354
Earnings (loss) per common share				
Basic	$ 0.81	$ (0.81)	$ 1.40	$ 0.01
Diluted	$ 0.78	$ (0.81)	$ 1.35	$ 0.01
Weighted average number of shares				
Basic	39,066,303	37,819,820	38,701,553	37,812,672
Diluted	40,294,902	37,819,820	39,925,275	39,060,047

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited; in thousands of US dollars, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated deficit)	Accumulated Other Comprehensive Income (loss)	Total
Three Months Ended June 30, 2011						
Balance at April 1, 2011	39,356,749	$ 394	$ 97,812	$ 94,625	$ (20,944)	$ 171,887
Stock-based compensation			386			386
Issuance of new stock			(215)			(215)
Exercise of stock options	722		4			4
Comprehensive income:						
Net Income				31,630		31,630
Fair valuation of derivatives					3,740	3,740
Reclassification to net income from accumulated other comprehensive loss related to hedge derivatives					(5,649)	(5,649)
Foreign currency translation adjustments					(11,451)	(11,451)
Unrealized gains on investments					(518)	(518)
Total comprehensive income						17,752
Balance at June 30, 2011	39,357,471	$ 394	$ 97,987	$ 126,255	$ (34,822)	$ 189,814
Six Months Ended June 30, 2011						
Balance at January 1, 2011	38,401,985	$ 384	$ 95,585	$ 72,157	$ (5,275)	$ 162,851
Stock-based compensation			817			817
Issuance of new stock	950,000	10	1,553			1,563
Exercise of stock options	5,486		32			32
Comprehensive income:						
Net income				54,098		54,098
Fair valuation of derivatives					6,076	6,076
Reclassification to net income from accumulated other comprehensive loss related to hedge derivatives					(9,942)	(9,942)
Foreign currency translation adjustments					(25,718)	(25,718)
Unrealized gains on investments					37	37
Total comprehensive income						24,551
Balance at June 30, 2011	39,357,471	$ 394	$ 97,987	$ 126,255	$ (34,822)	$ 189,814

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited; in thousands of US dollars, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated deficit)	Accumulated Other Comprehensive Income (loss)	Total
Three Months Ended June 30, 2010						
Balance at April 1, 2010	38,404,294	$ 384	$ 224,334	$ 29,138	$ (22,411)	$ 231,445
Stock-based compensation			656			656
Distribution to stockholders			(130,697)			(130,697)
Comprehensive income:						
Net loss				(30,747)		(30,747)
Fair valuation of derivatives					(3,349)	(3,349)
Reclassification to net income from accumulated other comprehensive loss related to hedge derivatives					1,259	1,259
Foreign currency translation adjustments					33,329	33,329
Unrealized gains on investments					24	24
Total comprehensive income						516
Balance at June 30, 2010	38,404,294	$ 384	$ 94,293	$ (1,609)	$ 8,852	$ 101,920
Six Months Ended June 30, 2010						
Balance at January 1, 2010	38,385,544	$ 384	$ 223,451	$ (1,963)	$ (6,182)	$ 215,690
Stock-based compensation	18,750		1,539			1,539
Distribution to stockholders			(130,697)			(130,697)
Comprehensive income:						
Net income				354		354
Fair valuation of derivatives					(5,402)	(5,402)
Reclassification to net income from accumulated other comprehensive loss related to hedge derivatives					1,878	1,878
Foreign currency translation adjustments					18,422	18,422
Unrealized gains on investments					136	136
Total comprehensive income						15,388
Balance at June 30, 2010	38,404,294	$ 384	$ 94,293	$ (1,609)	$ 8,852	$ 101,920

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands of US dollars)

	Six Months Ended	
	June 30, 2011	June 30, 2010
Cash flows from operating activities		
Net income	$ 54,098	$ 354
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	29,315	29,985
Provision for severance benefits	8,396	9,380
Amortization of debt issuance costs and original issue discount	491	449
Loss (gain) on foreign currency translation, net	(44,109)	29,975
Gain on disposal of property, plant and equipment, net	(11)	(9)
Loss on disposal of intangible assets, net	8	7
Restructuring and impairment charges	2,475	603
Stock-based compensation	1,246	2,752
Cash used for reorganization items		1,475
Loss on early extinguishment of senior notes	4,103	
Other	1,104	740
Changes in operating assets and liabilities		
Accounts receivable	2,103	(45,243)
Inventories	(14,300)	1,342
Other receivables	(1,309)	119
Other current assets	(884)	(92)
Deferred tax assets	824	618
Accounts payable	12,139	7,542
Other accounts payable	13,800	11,330
Accrued expenses	3,141	7,841
Other current liabilities	(1,155)	(1,172)
Payment of severance benefits	(3,745)	(2,760)
Other non-current liabilities	(232)	(2,855)
Net cash provided by operating activities before reorganization items	67,498	52,381
Cash used for reorganization items		(1,475)
Net cash provided by operating activities	67,498	50,906
Cash flows from investing activities		
Proceeds from disposal of plant, property and equipment	23	13
Purchase of plant, property and equipment	(26,926)	(20,509)
Payment for intellectual property registration	(324)	(245)
Decrease in short-term financial instruments		329
Collection of guarantee deposits	979	999
Payment of guarantee deposits	(1,483)	(769)
Other	(402)	(9)
Net cash used in investing activities	(28,133)	(20,191)
Cash flows from financing activities		

Proceeds from issuance of common stock	8,818	
Proceeds from issuance of senior notes		246,685
Debt issuance costs paid		(8,313)
Distribution to stockholders		(130,697)
Repayment of long-term borrowings		(61,750)
Repurchase of senior notes	(38,150)	
Repayment of obligations under capital lease	(3,182)	
Net cash provided by (used in) financing activities	(32,514)	45,925
Effect of exchange rates on cash and cash equivalents	(1,259)	(255)
Net increase in cash and cash equivalents	5,592	76,385
Cash and cash equivalents		
Beginning of the period	172,172	64,925
End of the period	$ 177,764	$ 141,310
Supplemental cash flow information		
Cash paid for interest	$ 13,468	$ 3,333
Cash paid for income taxes	$ 1,207	$ (270)
Noncash transactions		
Deferred offering costs reclassified as reduction of additional paid-in capital	$ 7,269	$

The accompanying notes are an integral part of these consolidated financial statements

8

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited; tabular dollars in thousands, except share data)

1. General

The Company

MagnaChip Semiconductor Corporation (together with its subsidiaries, the Company) is a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer applications. The Company s business is comprised of three key segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. The Company s Display Solutions products include display drivers for use in a wide range of flat panel displays and mobile multimedia devices. The Company s Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer applications. The Company s Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

2. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP). These interim consolidated financial statements include all adjustments consisting only of normal recurring adjustments and the elimination of all intercompany accounts and transactions which are, in the opinion of management, necessary to provide a fair presentation of financial condition and results of operations for the periods presented. These interim consolidated financial statements are presented in accordance with ASC 270, *Interim Reporting,* (ASC 270) and, accordingly, do not include all of the information and note disclosures required by US GAAP for complete financial statements. The results of operations for the six months ended June 30, 2011 are not necessarily indicative of the results to be expected for a full year or for any other periods.

The December 31, 2010 balance sheet data was derived from audited financial statements, but does not include all disclosures required by US GAAP.

Recent Accounting Pronouncements

In May, 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04 Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The ASU is the result of joint efforts by the FASB and the International Accounting Standards Board (IASB) to develop a single, converged fair value framework. While the ASU is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands existing disclosure requirements for fair value measurements and makes other amendments. Key additional disclosures include quantitative disclosures about unobservable inputs in Level 3 measures, qualitative information about sensitivity of Level 3 measures and valuation process, and classification within the fair value hierarchy for instruments where fair value is only disclosed in the footnotes but carrying amount is on some other basis. For public companies, the ASU is effective for interim and annual periods beginning after December 15, 2011. We do not expect adoption of this ASU to have a material impact on our results of operations, financial position or cash flow.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income: Presentation of Comprehensive Income, which amends current comprehensive income guidance. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of shareholders equity. Instead, it requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income (OCI). The ASU does not change the items that must be reported in OCI. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. We do not expect adoption of this ASU to have a material impact on our results of operations, financial position or cash flow.

3. Completion of Initial Public Offering

Prior to the Company s initial public offering (IPO), the Company s board of directors and the holders of a majority of its outstanding common units elected to convert the Company from a Delaware limited liability company to a Delaware corporation and to change the Company s name from MagnaChip Semiconductor LLC to MagnaChip Semiconductor Corporation. The corporate conversion was completed on March 10, 2011. In connection with the corporate conversion, outstanding common units of MagnaChip Semiconductor LLC were automatically converted into shares of common stock of the Company, outstanding options to purchase common units of the Company were automatically converted into options to purchase shares of common stock of the Company and outstanding warrants to purchase common units of MagnaChip Semiconductor LLC were automatically converted into warrants to purchase shares of common stock of the Company, all at a ratio of one share of common stock for eight common units.

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

On March 16, 2011, the Company also completed an IPO of 9,500,000 shares of common stock at an offering price of $14.00 per share and on March 11, 2011 listed on the NYSE. All shares were sold in the form of depositary shares and each depositary share represented an ownership interest in one share of common stock. Of the 9,500,000 shares, 950,000 shares were newly issued by the Company and 8,550,000 shares were sold by selling stockholders. The Company received $12,369 thousand of net proceeds from the issuance of the new shares of common stock after deducting underwriters discounts and commissions, and the Company did not receive any proceeds from the sale of shares of common stock offered by the selling stockholders. The Company incurred $10,807 thousand of IPO expenses that were recorded as reduction of additional paid-in capital in the consolidated balance sheets.

The Company previously stated an intention to use a part of the net proceeds from the IPO to make incentive payments to all employees, excluding management. The payment of such employee incentives was contingent upon the consummation of the IPO. The Company paid $12,146 thousand of the incentives in March 2011.

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

4. Inventories

Inventories as of June 30, 2011 and December 31, 2010 consist of the following:

	June 30, 2011	December 31, 2010
Finished goods	$ 11,505	$ 13,529
Semi-finished goods and work-in-process	58,965	50,542
Raw materials	17,281	9,762
Materials in-transit	1,120	1,643
Less: inventory reserve	(2,045)	(7,041)
Inventories, net	$ 86,826	$ 68,435

5. Property, Plant and Equipment

Property, plant and equipment as of June 30, 2011 and December 31, 2010 comprise the following:

	June 30, 2011	December 31, 2010
Buildings and related structures	$ 78,114	$ 73,945
Machinery and equipment	139,819	112,398
Vehicles and others	9,678	8,007
Equipment under capital lease	12,128	11,457
	239,739	205,807
Less: accumulated depreciation	(67,595)	(41,440)
accumulated depreciation on equipment under capital lease	(2,185)	(836)
Land	16,354	15,481
Construction in progress	4,820	
Property, plant and equipment, net	$ 191,133	$ 179,012

6. Intangible Assets

Intangible assets as of June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	December 31, 2010
Technology	$ 22,005	$ 19,969

Customer relationships	28,644	27,115
Intellectual property assets	6,022	5,444
In-process research and development	2,258	3,418
Less: accumulated amortization	(34,752)	(28,408)
Intangible assets, net	$ 24,177	$ 27,538

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

7. Derivative Financial Instruments

The Company s Korean subsidiary entered into option, forward and zero cost collar contracts to hedge the risk of changes in the functional-currency-equivalent cash flows attributable to currency rate changes on U.S. dollar denominated revenues.

Details of derivative contracts as of June 30, 2011 are as follows:

Date of transaction	Type of derivative	Total notional amount	Month of settlement
August 12, 2010	Zero cost collar	$ 108,000	July to December 2011
January 17, 2011	Zero cost collar	60,000	January to June 2012
March 16, 2011	Zero cost collar	24,000	January to March 2012

The option, forward and zero cost collar contracts qualify as cash flow hedges under ASC 815, *Derivatives and Hedging*, (ASC 815), since at both the inception of the contracts and on an ongoing basis, the hedging relationship was and is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the contracts. The Company is utilizing the hypothetical derivative method to measure the effectiveness by comparing the changes in value of the actual derivative versus the change in fair value of the hypothetical derivative.

The fair values of the Company s outstanding option, forward and zero cost collar contracts recorded as assets as of June 30, 2011 and December 31, 2010 are as follows:

Derivatives designated as hedging instruments:		June 30, 2011	December 31, 2010
Asset Derivatives:			
Options	Other current assets	$	$ 104
Forward	Other current assets	$	$ 6,674
Zero cost collars	Other current assets	$ 5,176	$ 1,544

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (AOCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative, representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in current earnings.

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the three months ended June 30, 2011:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Statement of Operations (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Statement of Operations (Effective Portion)	Location of Gain (Loss) Recognized in Statement of Operations on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Statement of Operations on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Options	$ (14)	Net sales	$ (496)	Other income (expenses) Others	$ (7)
Forward	897	Net sales	6,145	Other income (expenses) Others	85
Zero cost collars	2,857	Net sales		Other income (expenses) Others	125
Total	$ 3,740		$ 5,649		$ 203

The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the three months ended June 30, 2010:

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in AOCI on Derivatives (Effective Portion)	Location of Loss Reclassified from AOCI into Statement of Operations (Effective Portion)	Amount of Loss Reclassified from AOCI into Statement of Operations (Effective Portion)	Location of Loss Recognized in Statement of Operations on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Loss Recognized in Statement of Operations on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Options	$ (789)	Net sales	$ (167)		$ (28)

						Other income (expenses) Others		
Forward		(2,560)	Net sales		(1,092)	Other income (expenses) Others		(922)
Total	$	(3,349)		$	(1,259)		$	(950)

13

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the six months ended June 30, 2011:

Derivatives in Cash Flow Hedging Relationships	**Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)**	**Location of Gain (Loss) Reclassified from AOCI into Statement of Operations (Effective Portion)**	**Amount of Gain (Loss) Reclassified from AOCI into Statement of Operations (Effective Portion)**	**Location of Gain (Loss) Recognized in Statement of Operations on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**	**Amount of Gain (Loss) Recognized in Statement of Operations on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)**
Options	$ (85)	Net sales	$ (829)	Other income (expenses) Others	$ (18)
Forward	2,707	Net sales	10,771	Other income (expenses) Others	263
Zero cost collars	3,454	Net sales		Other income (expenses) Others	116
Total	$ 6,076		$ 9,942		$ 361

The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the six months ended June 30, 2010:

Derivatives in Cash Flow Hedging Relationships	**Amount of Loss Recognized in AOCI on Derivatives (Effective Portion)**	**Location of Loss Reclassified from AOCI into Statement of Operations (Effective Portion)**	**Amount of Loss Reclassified from AOCI into Statement of Operations (Effective Portion)**	**Location of Loss Recognized in Statement of Operations on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**	**Amount of Loss Recognized in Statement of Operations on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)**
Options	$ (1,321)	Net sales	$ (183)		$ (62)

						Other income (expenses) Others		
Forward		(4,081)	Net sales		(1,695)	Other income (expenses) Others		(945)
Total	$	(5,402)		$	(1,878)		$	(1,007)

The estimated net gain as of June 30, 2011 that is expected to be reclassified from accumulated other comprehensive income (loss) into earnings within the next twelve months is $4,974 thousand.

The Company s option, forward and zero cost collar contracts are subject to termination upon the occurrence of the following events:

(i) On the last day of a fiscal quarter, the sum of qualified and unrestricted cash and cash equivalents held by the Company is less than $30 million.

(ii) The rating of the Company s debt is B- or lower by Standard & Poor s Ratings Group or any successor rating agency thereof (S&P) or B3 or lower by Moody s Investor Services, Inc. or any successor rating agency thereof (Moody s) or the Company s debt ceases to be assigned a rating by either S&P or Moody s.

In addition, the Company is required to deposit cash collateral with Goldman Sachs International Bank, the counterparty to the option, forward and zero cost collar contracts, for any exposure in excess of $5 million.

14

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

8. Fair Value Measurements

The Company s assets measured at fair value on a recurring basis as of June 30, 2011, and the basis for that measurement is as follows:

	Carrying Value	Fair Value Measurement	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Current derivative assets	$ 5,176	$ 5,176	$	$ 5,176	$
Available-for-sale securities	767	767	767		

9. Long-Term Borrowings

Long-term borrowings as of June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	December 31, 2010
10.500% senior notes due April 2018	215,000	250,000
Discount on 10.500% senior notes due April 2018	(2,559)	(3,118)
Long-term borrowings, net of unamortized discount	$ 212,441	$ 246,882

On May 16, 2011, two of the Company s wholly-owned subsidiaries, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, repurchased $35.0 million out of $250.0 million aggregate principal amount of 10.500% senior notes due April 15, 2018 at a price of 109.0% from funds affiliated with Avenue Capital Management II, L.P.

In connection with the repurchase of the senior notes, the Company recognized $4,103 thousand of loss on early extinguishment of senior notes, which consisted of $3,150 thousand from repurchase premium, $422 thousand from write-off of discounts, $237 thousand from write-off of debt issuance costs and $294 thousand from incurrence of direct legal and advisory service fees.

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

10. Capital Leases

The Company entered into several lease agreements for the use of equipment for manufacturing and research and development. These leases are accounted for as capital leases as the ownership of the equipment will be transferred to the Company upon expiration of the lease terms, or the Company has bargain purchase options at the end of the lease terms.

Payable during	**Capital Lease**
Remainder of 2011	$ 3,255
2012	3,355
2013	24
Total future minimum lease payments	6,634
Less: Amount representing interest (a)	(362)
Present value of net minimum lease payments	6,272
Less: Current portion of capital lease obligations	(6,149)
Long-term obligations under capital lease	$ 123

(a) The lessor s implicit rate at lease inception was applied.

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

11. Accrued Severance Benefits

The majority of accrued severance benefits is for employees in the Company s Korean subsidiary, MagnaChip Semiconductor Ltd. (Korea). Pursuant to the Employee Retirement Benefit Security Act of Korea, most employees and executive officers with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of June 30, 2011, 98.4 % of employees of the Company were eligible for severance benefits.

Changes in accrued severance benefits for each period are as follows:

	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
	June 30, 2011		June 30, 2010	
Beginning balance	$ 92,715	$ 88,973	$ 78,106	$ 73,646
Provisions	5,542	8,396	6,214	9,380
Severance payments	(2,135)	(3,745)	(1,668)	(2,760)
Translation adjustments	2,525	5,023	(5,114)	(2,728)
	98,647	98,647	77,538	77,538
Less: Cumulative contributions to the National Pension Fund	(466)	(466)	(476)	(476)
Group Severance insurance plan	(764)	(764)	(668)	(668)
Accrued severance benefits, net	$ 97,417	$ 97,417	$ 76,394	$ 76,394

The severance benefits are funded approximately 1.25% and 1.48 % as of June 30, 2011 and 2010, respectively, through the Company s National Pension Fund and group severance insurance plan which will be used exclusively for payment of severance benefits to eligible employees. These amounts have been deducted from the accrued severance benefit balance.

The Company is liable to pay the following future benefits to its non-executive employees upon their normal retirement age:

	Severance benefit
Remainder of 2011	$
2012	163
2013	
2014	331
2015	366
2016	1,252
2017 2021	14,038

The above amounts were determined based on the non-executive employees current salary rates and the number of service years that will be accumulated upon their retirement dates. These amounts do not include amounts that might be paid to non-executive employees that will cease working with the Company before their normal retirement ages.

17

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

12. Restructuring and Impairment Charges

The Company recognized $267 and $603 thousand of impairment charges for the three and six months ended June 30, 2010 from two and four abandoned in-process research and development projects. The Company recognized $889 thousand of impairment charges for the three months ended June 30, 2011, which consisted of $406 thousand from three abandoned in-process research and development projects and one dropped existing technology, $393 thousand from one abandoned system project and $90 thousand from impairment of tangible and intangible assets caused by the closure of our research and development center in Japan.

The Company recognized $1,586 thousand of restructuring charges for the three months ended June 30, 2011, which were incurred by the closure of our research and development center in Japan.

13. Income Taxes

The Company files income tax returns in the U.S., Korea, Japan, Taiwan and various other jurisdictions.

The predecessor entity to MagnaChip Semiconductor Corporation (the Parent) was a non-taxable partnership entity until its conversion to a Delaware corporation on March 10, 2011.

MagnaChip Semiconductor Ltd. (Korea) is the principal operating entity within the consolidated Company. For the three and six months ended June 30, 2011 and 2010, no income tax expense for MagnaChip Semiconductor, Ltd. (Korea) was recorded due to net operating loss carry-forwards that were available to offset taxable income. The net deferred tax assets of MagnaChip Semiconductor Ltd., which include net operating carry-forwards, have a valuation allowance against them at June 30, 2011. The Company periodically assesses whether it is more likely than not that the deferred tax assets existing at the period-end will be realized in future periods.

Income tax expense recorded for the six month period ended June 30, 2011 principally relates to withholding taxes of $3.1 million mostly accrued on intercompany interest payments, income tax effect of $0.8 million resulting from the change of deferred tax assets and a $0.2 million increase in liability related to uncertain tax positions.

14. Geographic and Segment Information

The following sets forth information relating to the reportable segments:

	Three Months Ended	
	June 30, 2011	**June 30, 2010**
Net Sales		
Display Solutions	$ 82,719	$ 80,584
Semiconductor Manufacturing Services	96,458	101,564
Power Solutions	23,739	12,040
All other	763	512
Total segment net sales	$ 203,679	$ 194,700
Gross Profit		
Display Solutions	$ 24,695	$ 22,122

Semiconductor Manufacturing Services	35,109	39,452
Power Solutions	5,615	2,448
All other	763	512
Total segment gross profit	$ 66,182	$ 64,534

18

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

	Six Months Ended	
	June 30, 2011	June 30, 2010
Net Sales		
Display Solutions	$ 157,183	$ 157,314
Semiconductor Manufacturing Services	188,724	194,765
Power Solutions	44,151	21,074
All other	1,542	1,032
Total segment net sales	$ 391,600	$ 374,185
Gross Profit		
Display Solutions	$ 44,539	$ 36,553
Semiconductor Manufacturing Services	68,396	72,296
Power Solutions	8,179	4,011
All other	1,542	1,032
Total segment gross profit	$ 122,656	$ 113,892

The following is a summary of net sales by region, based on the location of the customer:

	Three Months Ended	
	June 30, 2011	June 30, 2010
Korea	$ 99,298	$ 101,310
Asia Pacific	59,585	52,687
Japan	18,451	12,796
North America	20,715	23,686
Europe	5,029	4,003
Africa	601	218
Total	$ 203,679	$ 194,700

	Six Months Ended	
	June 30, 2011	June 30, 2010
Korea	$ 186,811	$ 198,970
Asia Pacific	116,880	101,161
Japan	31,790	22,991
North America	46,637	44,066
Europe	7,996	6,779
Africa	1,486	218

Total	$ 391,600	$ 374,185

Net sales from the Company s top ten largest customers accounted for 61.2 % and 64.3% for the three months ended June 30, 2011 and 2010, respectively, and 61.2% and 64.2% for the six months ended June 30, 2011 and 2010, respectively.

The Company recorded $ 31,427 thousand and $35,315 thousand of sales to one customer within its Display Solutions segment, which represents greater than 10% of net sales, for the three months ended June 30, 2011 and 2010, respectively, and $58,108 thousand and $70,893 thousand for the six months ended June 30, 2011 and 2010, respectively.

Over 99% of the Company s property, plant and equipment are located in Korea as of June 30, 2011.

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

15. Commitments and Contingencies

The California Institute of Technology has made a claim against Samsung Fiber Optics for the infringement of certain patent rights in relation to image sensor products provided by Samsung Fiber Optics. Samsung Fiber Optics has made a claim against the Company as a provider of embedded components. The Company believes it is probable that the pending claim will have an unfavorable outcome and further believes the associated loss can be reasonably estimated according to ASC 450 Contingencies (ASC 450). The Company charged the best estimate of loss, $718 thousand, to operating expenses for the ten month period ended October 25, 2009, and the Company presents the estimated liabilities as accrued expenses as of June 30, 2011 and December 31, 2010 in the accompanying consolidated balance sheets. The estimate was based on the most recent communications with Samsung Fiber Optics. Accordingly, the Company cannot provide assurance that the estimated liabilities will be realized. The actual results could vary materially.

16. Earnings per Share

The following table illustrates the computation of basic and diluted earnings per common share:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
Net income	$ 31,630	$ (30,747)
Weighted average common stock outstanding		
Basic	39,066,303	37,819,820
Diluted	40,294,902	37,819,820
Earnings per share		
Basic	$ 0.81	$ (0.81)
Diluted	$ 0.78	$ (0.81)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income	$ 54,098	$ 354
Weighted average common stock outstanding		
Basic	38,701,553	37,812,672
Diluted	39,925,275	39,060,047
Earnings per share		
Basic	$ 1.40	$ 0.01
Diluted	$ 1.35	$ 0.01

The following outstanding instruments were excluded from the computation of diluted earnings per share, as they have an anti-dilutive effect on the calculation:

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Options	106,500	114,250

Warrants	1,875,017	1,875,017

20

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

17. Condensed Consolidating Financial Information

The $215.0 million senior notes are fully and unconditionally, jointly and severally, guaranteed by the Company and all of its subsidiaries, except for MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor (Shanghai) Company Limited.

The senior notes are structurally subordinated to the creditors of the Company s principal manufacturing and selling subsidiary, MagnaChip Semiconductor, Ltd. (Korea), which accounts for substantially all of the Company s net sales and assets.

Below are condensed consolidating balance sheets as of June 30, 2011 and December 31, 2010, condensed consolidating statements of operations for the three months and six months ended June 30, 2011 and 2010 and condensed consolidating statements of cash flows for the six months ended June 30, 2011 and 2010 of those entities that guarantee the senior notes, those that do not, MagnaChip Semiconductor Corporation, and the co-issuers.

For the purpose of the guarantor financial information, the investments in subsidiaries are accounted for under the equity method.

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

Condensed Consolidating Balance Sheets

June 30, 2011

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	$ 1,560	$ 25,728	$ 142,064	$ 8,412	$	$ 177,764
Accounts receivable, net			123,923	24,341	(24,472)	123,792
Inventories, net			86,808	176	(158)	86,826
Other receivables			11,301	85	(7,169)	4,217
Prepaid expenses	109		11,412	633	(2,897)	9,257
Other current assets	34,325	157,473	7,414	139,335	(327,823)	10,724
Total current assets	35,994	183,201	382,922	172,982	(362,519)	412,580
Property, plant and equipment, net			190,857	276		191,133
Intangible assets, net			23,747	430		24,177
Long-term prepaid expenses			13,614	187	(7,698)	6,103
Investment in subsidiaries	(541,417)	(646,874)		(457,255)	1,645,546	
Long-term intercompany loan	697,125	864,639		694,547	(2,256,311)	
Other non-current assets	1	7,229	7,912	6,118		21,260
Total Assets	$ 191,703	$ 408,195	$ 619,052	$ 417,285	$ (980,982)	$ 655,253
Liabilities and Stockholders Equity						
Current liabilities						
Accounts payable	$	$	$ 97,729	$ 555	$ (24,378)	$ 73,906
Other accounts payable	1,157	563	22,247	6,300	(7,169)	23,098
Accrued expenses	731	39,015	169,073	160,877	(327,916)	41,780
Current portion of capital lease obligations			5,958	191		6,149
Other current liabilities	(12)		4,461	3,196	(2,898)	4,747
Total current liabilities	1,876	39,578	299,468	171,119	(362,361)	149,680
Long-term borrowings, net		909,566	677,534	881,652	(2,256,311)	212,441
Long-term obligations under capital lease				123		123
Accrued severance benefits, net			96,032	1,385		97,417
Other non-current liabilities	14		3,196	10,267	(7,699)	5,778
Total liabilities	1,890	949,144	1,076,230	1,064,546	(2,626,371)	465,439

Commitments and contingencies						
Stockholders equity						
Common stock	394	136,229	39,005	51,976	(227,210)	394
Additional paid-in capital	97,987	(733,506)	(537,114)	(731,568)	2,002,188	97,987
Retained earnings	126,255	91,151	79,160	67,194	(237,505)	126,255
Accumulated other comprehensive loss	(34,823)	(34,823)	(38,229)	(34,863)	107,916	(34,822)
Total stockholders equity	189,813	(540,949)	(457,178)	(647,261)	1,645,389	189,814
Total liabilities and stockholders equity	$ 191,703	$ 408,195	$ 619,052	$ 417,285	$ (980,982)	$ 655,253

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

Condensed Consolidating Balance Sheets

December 31, 2010

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	$ 79	$ 46,595	$ 112,370	$ 13,128	$	$ 172,172
Accounts receivable, net			160,317	60,533	(101,796)	119,054
Inventories, net			68,435	158	(158)	68,435
Other receivables	718	718	23,111	2,969	(24,597)	2,919
Prepaid expenses	52	2	10,957	93	(2,897)	8,207
Short-term intercompany loan		95,000		95,000	(190,000)	
Other current assets	41,363	124,376	9,606	111,628	(268,053)	18,920
Total current assets	42,212	266,691	384,796	283,509	(587,501)	389,707
Property, plant and equipment, net			178,623	389		179,012
Intangible assets, net			27,009	529		27,538
Long-term prepaid expenses			17,371		(9,136)	8,235
Investment in subsidiaries	(567,941)	(641,799)		(475,696)	1,685,436	
Long-term intercompany loan	697,125	792,846		621,000	(2,110,971)	
Other non-current assets		7,819	6,611	6,821	1	21,252
Total Assets	$ 171,396	$ 425,557	$ 614,410	$ 436,552	$ (1,022,171)	$ 625,744
Liabilities and Stockholders Equity						
Current liabilities						
Accounts payable	$	$	$ 118,353	$ 41,634	$ (101,723)	$ 58,264
Other accounts payable	8,334	8,987	15,994	5,927	(24,597)	14,645
Accrued expenses	211	39,887	134,460	126,204	(268,127)	32,635
Short-term intercompany borrowings			95,000	95,000	(190,000)	
Current portion of capital lease obligations			5,373	184		5,557
Other current liabilities			3,815	4,130	(2,897)	5,048
Total current liabilities	8,545	48,874	372,995	273,079	(587,344)	116,149
Long-term borrowings, net		944,007	621,000	792,846	(2,110,971)	246,882
Long-term obligations under capital lease			2,888	217		3,105
Accrued severance benefits, net			86,511	1,267		87,778
Other non-current liabilities			6,653	11,462	(9,136)	8,979

Total liabilities	8,545	992,881	1,090,047	1,078,871	(2,707,451)	462,893
Commitments and contingencies						
Stockholders equity						
Common stock	384	136,229	39,005	51,976	(227,210)	384
Additional paid-in capital	95,585	(734,101)	(537,608)	(732,266)	2,003,975	95,585
Retained earnings	72,157	35,823	31,799	43,269	(110,891)	72,157
Accumulated other comprehensive loss	(5,275)	(5,275)	(8,833)	(5,298)	19,406	(5,275)
Total stockholders equity	162,851	(567,324)	(475,637)	(642,319)	1,685,280	162,851
Total liabilities and stockholders equity	$ 171,396	$ 425,557	$ 614,410	$ 436,552	$ (1,022,171)	$ 625,744

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

Condensed Consolidating Statements of Operations

For the three months ended June 30, 2011

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 203,812	$ 6,131	$ (6,264)	$ 203,679
Cost of sales			137,514	538	(555)	137,497
Gross profit			66,298	5,593	(5,709)	66,182
Selling, general and administrative expenses	659	351	16,180	3,484	(3,216)	17,458
Research and development expenses			21,391	1,709	(2,486)	20,614
Restructuring and impairment charges			799	1,676		2,475
Operating income (loss)	(659)	(351)	27,928	(1,276)	(7)	25,635
Other income (expense)	1	11,284	4,400	(7,720)		7,965
Income (loss) before income taxes, equity in earnings of related equity investment	(658)	10,933	32,328	(8,996)	(7)	33,600
Income tax expenses (benefits)	(18)		1,039	949		1,970
Income (loss) before equity in earnings of related investment	(640)	10,933	31,289	(9,945)	(7)	31,630
Equity in earnings of related investment	32,270	21,334		31,282	(84,886)	
Net Income	$ 31,630	$ 32,267	$ 31,289	$ 21,337	$ (84,893)	$ 31,630

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

Condensed Consolidating Statements of Operations

For the six months ended June 30, 2011

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 391,562	$ 12,747	$ (12,709)	$ 391,600
Cost of sales			268,959	612	(627)	268,944
Gross profit			122,603	12,135	(12,082)	122,656
Selling, general and administrative expenses	1,296	586	31,794	6,587	(7,404)	32,859
Research and development expenses			40,692	3,091	(4,671)	39,112
Restructuring and impairment charges			799	1,676		2,475
Special expense for IPO incentive			11,355	791		12,146
Operating income (loss)	(1,296)	(586)	37,963	(10)	(7)	36,064
Other income (expense)	1	32,036	10,590	(20,248)		22,379
Income (loss) before income taxes, equity in earnings of related equity investment	(1,295)	31,450	48,553	(20,258)	(7)	58,443
Income tax expenses (benefits)	(18)		1,193	3,170		4,345
Income (loss) before equity in earnings of related investment	(1,277)	31,450	47,360	(23,428)	(7)	54,098
Equity in earnings of related investment	55,375	23,878		47,353	(126,606)	
Net Income	$ 54,098	$ 55,328	$ 47,360	$ 23,925	$ (126,613)	$ 54,098

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

Condensed Consolidating Statements of Operations

For the three months ended June 30, 2010

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 194,845	$ 6,923	$ (7,068)	$ 194,700
Cost of sales			130,178	1,224	(1,236)	130,166
Gross profit			64,667	5,699	(5,832)	64,534
Selling, general and administrative expenses	615	389	15,591	2,167	(2,798)	15,964
Research and development expenses			21,457	2,112	(3,026)	20,543
Restructuring and impairment charges			267			267
Operating income (loss)	(615)	(389)	27,352	1,420	(8)	27,760
Other income (expense)	3,734	(9,540)	(64,123)	14,149		(55,780)
Income (loss) before income taxes, equity in loss of related equity investment	3,119	(9,929)	(36,771)	15,569	(8)	(28,020)
Income tax expenses			12	2,715		2,727
Income (loss) before equity in loss of related investment	3,119	(9,929)	(36,783)	12,854	(8)	(30,747)
Loss of related investment	(33,866)	(24,098)		(36,791)	94,755	
Net loss	$ (30,747)	$ (34,027)	$ (36,783)	$ (23,937)	$ 94,747	$ (30,747)
Net loss attributable to common units	$ (30,747)	$ (34,027)	$ (36,783)	$ (23,937)	$ 94,747	$ (30,747)

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

Condensed Consolidating Statements of Operations

For the six months ended June 30, 2010

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 369,659	$ 18,605	$ (14,079)	$ 374,185
Cost of sales			256,682	6,917	(3,306)	260,293
Gross profit			112,977	11,688	(10,773)	113,892
Selling, general and administrative expenses	1,178	525	32,855	4,754	(5,440)	33,872
Research and development expenses			42,857	4,282	(6,065)	41,074
Restructuring and impairment charges			603			603
Operating income (loss)	(1,178)	(525)	36,662	2,652	732	38,343
Other income (expense)	3,734	(8,117)	(56,746)	24,864		(36,265)
Income (loss) before income taxes, equity in earnings (loss) of related equity investment	2,556	(8,642)	(20,084)	27,516	732	2,078
Income tax expenses (benefits)			(1,947)	3,671		1,724
Income (loss) before equity in earnings (loss) of related investment	2,556	(8,642)	(18,137)	23,845	732	354
Equity (loss) of related investment	(2,202)	6,409		(17,851)	13,644	
Net income (loss)	$ 354	$ (2,233)	$ (18,137)	$ 5,994	$ 14,376	$ 354
Net income (loss) attributable to common units	$ 354	$ (2,233)	$ (18,137)	$ 5,994	$ 14,376	$ 354

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

Condensed Consolidating Statements of Cash Flows

For the six months ended June 30, 2011

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net income	$ 54,098	$ 55,328	$ 47,360	$ 23,925	$ (126,613)	$ 54,098
Adjustments to reconcile net income to net cash provided by (used in) operating activities						
Depreciation and amortization			29,171	144		29,315
Provision for severance benefits			8,280	116		8,396
Amortization of debt issuance costs and original issue discount		491				491
Loss (gain) on foreign currency translation, net		(15,260)	(45,375)	16,526		(44,109)
Gain on disposal of property, plant and equipment, net			(11)			(11)
Loss on disposal of intangible assets, net			8			8
Restructuring and Impairment charges			800	1,676	(1)	2,475
Stock-based compensation	119		1,047	404	(324)	1,246
Equity in earnings of related investment	(55,375)	(23,878)		(47,353)	126,606	
Other	(18)	4,102	1,286	8	(171)	5,207
Changes in operating assets and liabilities						
Accounts receivable, net			43,302	36,124	(77,323)	2,103
Inventories, net			(14,308)		8	(14,300)
Other receivables	718	718	11,991	2,691	(17,427)	(1,309)
Other current assets	176	(33,094)	516	(29,136)	60,654	(884)
Deferred tax assets				824		824
Accounts payable			(23,338)	(41,868)	77,345	12,139
Other accounts payable	(7,247)	(8,552)	11,819	353	17,427	13,800
Accrued expenses	192	(1,038)	30,902	33,760	(60,675)	3,141
Other current liabilities			(232)	(923)		(1,155)
Long term other payable				221	199	420
Payment of severance benefits			(3,733)	(12)		(3,745)
Other			1,514	(2,166)		(652)
Net cash provided by (used in) operating activities	(7,337)	(21,183)	100,999	(4,686)	(295)	67,498
Cash flows from investing activities						
Decrease in short-term loans		38,466	17	38,450	(76,933)	
Proceeds from disposal of plant, property and equipment			23			23

Purchases of plant, property and equipment			(26,898)	(28)		(26,926)
Payment for intellectual property registration			(324)			(324)
Collection of guarantee deposits			979			979
Payment of guarantee deposits			(1,461)	(22)		(1,483)
Other			(402)			(402)
Net cash used in investing activities		38,466	(28,066)	38,400	(76,933)	(28,133)
Cash flow from financing activities						
Proceeds from issuance of common stock	8,818					8,818
Repayment of long-term borrowings		(38,150)	(40,436)	(38,466)	78,902	(38,150)
Repayment of obligations under capital lease			(3,087)	(95)		(3,182)
Net cash provided by (used in) financing activities	8,818	(38,150)	(43,523)	(38,561)	78,902	(32,514)
Effect of exchange rates on cash and cash equivalents			284	131	(1,674)	(1,259)
Net increase (decrease) in cash and cash equivalents	1,481	(20,867)	29,694	(4,716)		5,592
Cash and cash equivalents						
Beginning of the period	79	46,595	112,370	13,128		172,172
End of the period	$ 1,560	$ 25,728	$ 142,064	$ 8,412	$	$ 177,764

28

Table of Contents

MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

(Unaudited; tabular dollars in thousands, except share data)

Condensed Consolidating Statements of Cash Flows

For the six months ended June 30, 2010

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net income	$ 354	$ (2,233)	$ (18,137)	$ 5,994	$ 14,376	$ 354
Adjustments to reconcile net income to net cash provided by (used in) operating activities						
Depreciation and amortization			29,846	139		29,985
Provision for severance benefits			9,225	155		9,380
Amortization of debt issuance costs		449				449
Loss (gain) on foreign currency translation, net		27,659	29,510	(27,194)		29,975
Gain on disposal of property, plant and equipment			(9)			(9)
Loss on disposal of intangible assets, net			7			7
Restructuring and impairment charges			603			603
Stock-based compensation	407		2,010	335		2,752
Cash used for reorganization items			51	1,424		1,475
Loss (earnings) of related investment	2,202	(6,409)		17,851	(13,644)	
Other	13	(11)	757	(19)		740
Changes in operating assets and liabilities						
Accounts receivable, net			(35,220)	11,593	(21,616)	(45,243)
Inventories, net			(2,189)	4,290	(759)	1,342
Other receivables			(12,339)	845	11,613	119
Other current assets	(4,805)	(29,584)	3,737	(24,144)	54,704	(92)
Deferred tax assets				618		618
Accounts payable			15,050	(29,102)	21,594	7,542
Other accounts payable	5,510	2,181	13,022	2,230	(11,613)	11,330
Accrued expenses		4,851	28,509	29,443	(54,962)	7,841
Other current liabilities			(1,043)	(129)		(1,172)
Long term other payable				72	(1,603)	(1,531)
Payment of severance benefits			(2,731)	(29)		(2,760)
Other			467	(1,791)		(1,324)
Net cash provided by (used in) operating activities before reorganization items	3,681	(3,097)	61,126	(7,419)	(1,910)	52,381
Cash used for reorganization items			(51)	(1,424)		(1,475)
Net cash provided by (used in) operating activities	3,681	(3,097)	61,075	(8,843)	(1,910)	50,906

Cash flows from investing activities						
Proceeds from disposal of plant, property and equipment			13			13
Purchases of plant, property and equipment			(20,505)	(4)		(20,509)
Payment for intellectual property registration			(245)			(245)
Decrease in short-term financial instruments				329		329
Decrease in guarantee deposits			219	780		999
Collection of long-term intercompany loans	126,953				(126,953)	
Other			(693)	(85)		(778)
Net cash provided by (used in) investing activities	126,953		(21,211)	1,020	(126,953)	(20,191)
Cash flow from financing activities						
Repayment of long-term borrowings		(188,703)			126,953	(61,750)
Proceeds from issuance of senior notes		246,685				246,685
Debt issuance costs paid		(8,313)				(8,313)
Distribution to stockholders	(130,697)					(130,697)
Net cash provided by (used in) financing activities	(130,697)	49,669			126,953	45,925
Effect of exchange rates on cash and cash equivalents			(2,859)	694	1,910	(255)
Net increase (decrease) in cash and cash equivalents	(63)	46,572	37,005	(7,129)		76,385
Cash and cash equivalents						
Beginning of the period	136	24	45,443	19,322		64,925
End of the period	$ 73	$ 46,596	$ 82,448	$ 12,193	$	$ 141,310

29

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and the related notes included elsewhere in this report. This discussion and analysis contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading Risk Factors and elsewhere in this report.

Overview

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer applications. We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry, supported by our 30-year operating history, large portfolio of approximately 2,791 novel registered patents and 664 pending novel patent applications and extensive engineering and manufacturing process expertise. Our business is comprised of three key segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our Display Solutions products include display drivers that cover a wide range of flat panel displays and multimedia devices. Our Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer applications. Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

Our wide variety of analog and mixed-signal semiconductor products and manufacturing services combined with our deep technology platform allows us to address multiple high-growth end markets and to rapidly develop and introduce new products and services in response to market demands. Our substantial manufacturing operations in Korea and design centers in Korea and Japan place us at the core of the global consumer electronics supply chain. We believe this enables us to quickly and efficiently respond to our customers needs and allows us to better service and capture additional demand from existing and new customers.

To maintain and increase our profitability, we must accurately forecast trends in demand for consumer electronics products that incorporate semiconductor products we produce. We must understand our customers needs as well as the likely end market trends and demand in the markets they serve. We must balance the likely manufacturing utilization demand of our product businesses and foundry business to optimize our facilities utilization. We must also invest in relevant research and development activities and manufacturing capacity and purchase necessary materials on a timely basis to meet our customers demand while maintaining our target margins and cash flow.

The semiconductor markets in which we participate are highly competitive. The prices of our products tend to decrease regularly over their useful lives, and such price decreases can be significant as new generations of products are introduced by us or our competitors. We strive to offset the impact of declining selling prices for existing products through cost reductions and the introduction of new products that command selling prices above the average selling price of our existing products. In addition, we seek to manage our inventories and manufacturing capacity so as to mitigate the risk of losses from product obsolescence.

Demand for our products and services is driven primarily by overall demand for consumer electronics products and can be adversely affected by periods of weak consumer spending or by market share losses by our customers. To mitigate the impact of market volatility on our business, we seek to address market segments and geographies with higher growth rates than the overall consumer electronics industry. For example, in recent years, we have experienced increasing demand from OEMs and consumers in China and Taiwan relative to overall demand for our products and services. We expect to derive a meaningful portion of our growth from growing demand in such markets. We also expect that new competitors will emerge in these markets that may place increased pressure on the pricing for our products and services, but we believe that we will be able to successfully compete based upon our higher quality products and services and that the impact from the increased competition will be more than offset by increased demand arising from such markets. Further, we believe we are well-positioned competitively as a result of our long operating history, existing manufacturing capacity and our Korea-based operations.

Within our Display Solutions and Power Solutions segments, net sales are driven by design wins in which we or another company is selected by an electronics OEM or other potential customer to supply its demand for a particular product. A customer will often have more than one supplier designed in to multi-source components for a particular product line. Once designed in, we often specify the pricing of a particular product for a set period of time, with periodic discussions and renegotiations of pricing with our customers. In any given period, our net sales depend heavily upon the end-market demand for the goods in which our products are used, the inventory levels maintained by our customers and in some cases, allocation of demand for components for a particular product among selected qualified suppliers.

Table of Contents

Within the Semiconductor Manufacturing Services business, net sales are driven by customers decisions on which manufacturing services provider to use for a particular product. Most of our semiconductor manufacturing services customers are fabless and depend upon service providers like us to manufacture their products. A customer will often have more than one supplier of manufacturing services; however, they tend to allocate a majority of manufacturing volume to one of their suppliers. We strive to be the primary supplier of manufacturing services to our customers. Once selected as a primary supplier, we often specify the pricing of a particular service on a per wafer basis for a set period of time, with periodic discussions and renegotiations of pricing with our customers. In any given period, our net sales depend heavily upon the end-market demand for the goods in which the products we manufacture for customers are used, the inventory levels maintained by our customers and in some cases, allocation of demand for manufacturing services among selected qualified suppliers.

In contrast to fabless semiconductor companies, our internal manufacturing capacity provides us with greater control over manufacturing costs and the ability to implement process and production improvements which can favorably impact gross profit margins. Our internal manufacturing capacity also allows for better control over delivery schedules, improved consistency over product quality and reliability and improved ability to protect intellectual property from misappropriation. However, having internal manufacturing capacity exposes us to the risk of under-utilization of manufacturing capacity which results in lower gross profit margins, particularly during downturns in the semiconductor industry.

Our products and services require investments in capital equipment. Analog and mixed-signal manufacturing facilities and processes are typically distinguished by the design and process implementation expertise rather than the use of the most advanced equipment. These processes also tend to migrate more slowly to smaller geometries due to technological barriers and increased costs. For example, some of our products use high-voltage technology that requires larger geometries and that may not migrate to smaller geometries for several years, if at all. Additionally, the performance of many of our products is not necessarily dependent on geometry. As a result, our manufacturing base and strategy does not require substantial investment in leading edge process equipment, allowing us to utilize our facilities and equipment over an extended period of time with moderate required capital investments. Generally, incremental capacity expansions in our segment of the market result in more moderate industry capacity expansion as compared to leading edge processes. As a result, this market, and we, specifically, are less likely to experience significant industry overcapacity, which can cause product prices to plunge dramatically. In general, we seek to invest in manufacturing capacity that can be used for multiple high-value applications over an extended period of time. We believe this capital investment strategy enables us to optimize our capital investments and facilitates deeper and more diversified product and service offerings.

Our success going forward will depend upon our ability to adapt to future challenges such as the emergence of new competitors for our products and services or the consolidation of current competitors. Additionally, we must innovate to remain ahead of, or at least rapidly adapt to, technological breakthroughs that may lead to a significant change in the technology necessary to deliver our products and services. We believe that our established relationships and close collaboration with leading customers enhance our visibility into new product opportunities, market and technology trends and improve our ability to meet these challenges successfully. In our Semiconductor Manufacturing Services business, we strive to maintain competitiveness and our position as a primary manufacturing services provider to our customers by offering high value added, unique processes, high flexibility and excellent service.

Recent Changes to Our Business

On April 9, 2010, we completed the sale of $250.0 million in aggregate principal amount of 10.500% senior notes due 2018, which we refer to as our senior notes. Of the $238.4 million of net proceeds, $130.7 million was used to make a distribution to our equityholders and $61.6 million was used to repay all outstanding borrowings under our term loan. The remaining proceeds of $46.1 million were retained to fund working capital and for general corporate purposes.

In March 2011, we completed an initial public offering, our IPO, of 9,500,000 shares of common stock, and we listed on the NYSE. All shares were sold in the form of depositary shares and each depositary share represented an ownership interest in one share of common stock. Of the 9,500,000 shares, 950,000 shares were newly issued by us and 8,550,000 shares were sold by selling stockholders. All outstanding depositary shares were automatically cancelled on April 24, 2011 and the underlying shares of common stock were issued to the holders of such cancelled depositary shares. We received $12.4 million of net proceeds from the issuance of the new shares of common stock after deducting underwriters discounts and commissions, and we did not receive any proceeds from the sale of shares of common stock offered by the selling stockholders. We incurred $10.8 million of IPO expenses that were recorded as decrease of additional paid-in capital in the consolidated balance sheets. Of the $10.8 million, we paid out $6.9 million and $3.6 million for the year ended December 31, 2010 and for the six months ended June 30, 2011, respectively and we estimate payment of $0.3 million of IPO expenses in the remainder of 2011.

Prior to the IPO, our board of directors and the holders of a majority of our outstanding common units converted MagnaChip Semiconductor LLC from a Delaware limited liability company to MagnaChip Semiconductor Corporation, a Delaware corporation. In connection with the corporate conversion, outstanding common units of MagnaChip Semiconductor LLC were automatically converted into shares of common stock of MagnaChip Semiconductor Corporation, outstanding options to purchase common units of MagnaChip Semiconductor LLC were automatically converted into options to purchase shares of common stock of MagnaChip Semiconductor Corporation and outstanding warrants to purchase common units of MagnaChip Semiconductor LLC were automatically converted into warrants to purchase shares of common stock of MagnaChip Semiconductor Corporation, all at a ratio of one share of common stock for eight common units.

Table of Contents

On May 16, 2011, two of the Company s wholly-owned subsidiaries, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, repurchased $35.0 million out of $250.0 million aggregate principal amount of our senior notes at a price of 109.0% from funds affiliated with Avenue Capital Management II, L.P. In connection with the repurchase of the senior notes, the Company recognized $4.1 million of loss on early extinguishment of senior notes, which consisted of $3.2 million from repurchase premium, $0.4 million from write-off of discounts, $0.2 million from write-off of debt issuance costs and $0.3 million from incurrence of direct legal and advisory service fees.

Business Segments

We report in three separate business segments because we derive our revenues from three principal business lines: Display Solutions, Power Solutions, and Semiconductor Manufacturing Services. We have identified these segments based on how we allocate resources and assess our performance.

Display Solutions: Our Display Solutions products include source and gate drivers and timing controllers that cover a wide range of flat panel displays used in LCD televisions and LED televisions and displays, mobile PCs and mobile communications and entertainment devices. Our display solutions support the industry s most advanced display technologies, such as LTPS and AMOLED, as well as high-volume display technologies such as TFT. Our Display Solutions business represented 40.1% and 42.0% of our net sales for the six months ended June 30, 2011 and 2010, respectively.

Power Solutions: Our Power Solutions segment produces power management semiconductor products including discrete and integrated circuit solutions for power management in high-volume consumer applications. These products include MOSFETs, LED drivers, DC-DC converters, analog switches and linear regulators, such as low-dropout regulators, or LDOs. Our power solutions products are designed for applications such as mobile phones, LCD televisions, and desktop computers, and allow electronics manufacturers to achieve specific design goals of high efficiency and low standby power consumption. Going forward, we expect to continue to expand our power management product portfolio. Our Power Solutions business represented 11.3% and 5.6% of our net sales for the six months ended June 30, 2011 and 2010, respectively.

Semiconductor Manufacturing Services: Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services to fabless semiconductor companies that serve the consumer, computing and wireless end markets. We manufacture wafers based on our customers product designs. We do not market these products directly to end customers but rather supply manufactured wafers and products to our customers to market to their end customers. We offer approximately 240 process flows to our manufacturing services customers. We also often partner with key customers to jointly develop or customize specialized processes that enable our customers to improve their products and allow us to develop unique manufacturing expertise. Our manufacturing services are targeted at customers who require differentiated, specialty analog and mixed-signal process technologies such as high voltage CMOS, embedded memory and power. These customers typically serve high-growth and high-volume applications in the consumer, computing and wireless end markets. Our Semiconductor Manufacturing Services business represented 48.2% and 52.1% of our net sales for the six months ended June 30, 2011 and 2010, respectively.

Factors Affecting Our Results of Operations

Net Sales. We derive a majority of our sales (net of sales returns and allowances) from three reportable segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our product inventory is primarily located in Korea and is available for drop shipment globally. Outside of Korea, we maintain limited product inventory, and our sales representatives generally relay orders to our factories in Korea for fulfillment. We have strategically located our sales and technical support offices near concentrations of major customers. Our sales offices are located in Hong Kong, Japan, Korea, Taiwan, China, the United Kingdom and the United States. Our network of authorized agents and distributors consists of agents in the United States and Europe and distributors and agents in the Asia Pacific region. Our net sales from All other consist principally of rental income.

We recognize revenue when risk and reward of ownership passes to the customer either upon shipment, upon product delivery at the customer s location or upon customer acceptance, depending on the terms of the arrangement. For the six months ended June 30, 2011 and 2010, we sold products to over 230 and 298 customers, respectively, and our net sales to our ten largest customers represented 61% and 64% of our net sales. We have a combined production capacity of over 134,000 eight-inch equivalent semiconductor wafers per month. We believe our large-scale, cost-effective fabrication facilities enable us to rapidly adjust our production levels to meet shifts in demand by our end customers.

Gross Profit. Our overall gross profit generally fluctuates as a result of changes in overall sales volumes and in the average selling prices of our products and services. Other factors that influence our gross profit include changes in product mix, the introduction of new products and services and subsequent generations of existing products and services, shifts in the utilization of our manufacturing facilities and the yields achieved by our manufacturing operations, changes in material, labor and other manufacturing costs and variation in depreciation expense. Gross profit varies by our operating segments.

Average Selling Prices. Average selling prices for our products tend to be highest at the time of introduction of new products which utilize the latest technology and tend to decrease over time as such products mature in the market and are replaced by next generation products. We strive to offset the impact of declining selling prices for existing products through our product development activities and by introducing new products that command selling prices above the average selling price of our existing products. In addition, we seek to manage our inventories and manufacturing capacity so as to preclude losses from product and productive capacity obsolescence.

Material Costs. Our cost of sales consists of costs of raw materials, such as silicon wafers, chemicals, gases and tape, packaging supplies, equipment maintenance and depreciation expenses. We use processes that require specialized raw materials, such as silicon wafers, that are generally available from a limited number of suppliers. If demand increases or supplies decrease, the costs of our raw materials could significantly increase.

Labor Costs. A significant portion of our employees are located in Korea. Under Korean labor laws, most employees and certain executive officers with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of June 30, 2011, approximately 98.4% of our employees were eligible for severance benefits.

Depreciation Expense. We periodically evaluate the carrying values of long-lived assets, including property, plant and equipment and intangible assets, as well as the related depreciation periods. At June 30, 2011, we depreciated our property, plant and equipment using the straight-line method over the estimated useful lives of our assets. Depreciation rates vary from 30-40 years on buildings to five to ten years for certain equipment and assets. Our evaluation of carrying values is based on various analyses including cash flow and profitability projections. If our projections indicate that future undiscounted cash flows are not sufficient to recover the carrying values of the related long-lived assets, the carrying value of the assets is impaired and will be reduced, with the reduction charged to expense so that the carrying value is equal to fair value.

Selling Expenses. We sell our products worldwide through a direct sales force as well as a network of sales agents and representatives to OEMs, including major branded customers and contract manufacturers, and indirectly through distributors. Selling expenses consist primarily of the personnel costs for the members of our direct sales force, a network of sales representatives and other costs of distribution. Personnel costs include base salary, benefits and incentive compensation. As incentive compensation is tied to various net sales goals, it will increase or decrease with net sales.

General and Administrative Expenses. General and administrative expenses consist of the costs of various corporate operations, including finance, legal, human resources and other administrative functions. These expenses primarily consist of payroll-related expenses, consulting and other professional fees and office facility-related expenses. Historically, our selling, general and administrative expenses have remained relatively constant as a percentage of net sales, and we expect this trend to continue in the future.

Research and Development. The rapid technological change and product obsolescence that characterize our industry require us to make continuous investments in research and development. Product development time frames vary but, in general, we incur research and development costs one to two years before generating sales from the associated new products. These expenses include personnel costs for members of our engineering workforce, cost of photomasks, silicon wafers and other non-recurring engineering charges related to product design. Additionally, we develop base-line process technology through experimentation and through the design and use of characterization wafers that help achieve commercially feasible yields for new products. The majority of research and development expenses are for process development that serves as a common technology platform for all of our product segments. Consequently, we do not allocate these expenses to individual segments.

Restructuring and Impairment Charges. We evaluate the recoverability of certain long-lived assets and in-process research and development assets on a periodic basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In our efforts to improve our overall profitability in future periods, we have closed or otherwise impaired, and may in the future close or impair, facilities that are underutilized and that are no longer aligned with our long-term business goals.

Interest Expense, Net. Our interest expense was incurred under our outstanding term loan and senior notes. Our term loan bore interest at six-month LIBOR plus 12%, and was minimally offset by interest income on cash balances. In April 2010, we repaid our term loan with a portion of the proceeds from our sale of $250.0 million in aggregate principal amount of our senior notes. In May 2011, we repurchased $35.0 million out of $250.0 million aggregate senior notes.

Impact of Foreign Currency Exchange Rates on Reported Results of Operations. Historically, a portion of our revenues and greater than the majority of our operating expenses and costs of sales have been denominated in non-U.S. currencies, principally the Korean won, and we expect that this will remain true in the future. Because we report our results of operations in U.S. dollars converted our non-U.S. revenues and expenses based on monthly average exchange rates, changes in the exchange rate between the Korean won and the U.S. dollar could materially impact our reported results of operations and distort period to period comparisons. In particular, because of the difference in the amount of our consolidated revenues and expenses that are in U.S. dollars relative to Korean won, depreciation in the U.S. dollar relative to the Korean won could result in a material increase in reported costs relative to revenues, and therefore could cause our profit margins and operating income (loss) to appear to decline materially, particularly relative to prior periods. The converse is true if the U.S. dollar were to appreciate relative to the Korean won. As a result of such foreign currency fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our stock could be adversely affected.

Table of Contents

From time to time, we may engage in exchange rate hedging activities in an effort to mitigate the impact of exchange rate fluctuations. Our Korean subsidiary enters into foreign currency option, forward and zero cost collar contracts in order to mitigate a portion of the impact of U.S. dollar-Korean won exchange rate fluctuations on our operating results. These foreign currency option, forward and zero cost collar contracts typically require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during successive months to our counterparty in exchange for Korean won at specified exchange rates. Obligations under these foreign currency option, forward and zero cost collar contracts must be cash collateralized if our exposure exceeds certain specified thresholds. These option, forward and zero cost collar contracts may be terminated by the counterparty in a number of circumstances, including if our long-term debt rating falls below B-/B3 or if our total cash and cash equivalents is less than $30.0 million at the end of a fiscal quarter. We cannot assure you that any hedging technique we implement will be effective. If our hedging activities are not effective, changes in currency exchange rates may have a more significant impact on our results of operations.

Foreign Currency Gain or Loss. Foreign currency translation gains or losses on transactions by us or our subsidiaries in a currency other than our or our subsidiaries functional currency are included in our statements of operations as a component of other income (expense). A substantial portion of this net foreign currency gain or loss relates to non-cash translation gain or loss related to the principal balance of intercompany borrowings at our Korean subsidiary that are denominated in U.S. dollars. This gain or loss results from fluctuations in the exchange rate between the Korean won and U.S. dollar.

Income Taxes. We record our income taxes in each of the tax jurisdictions in which we operate. This process involves using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of our assets and liabilities. We exercise significant management judgment in determining our provision for income taxes, deferred tax assets and liabilities. We periodically evaluate our deferred tax assets to ascertain whether it is more likely than not that the deferred tax assets will be realized. Our income tax expense has been low in absolute dollars and as a percentage of net sales principally due to the availability of tax loss carry-forwards and we expect such rate to remain low for at least the next few years.

Our operations are subject to income and transaction taxes in Korea and in multiple foreign jurisdictions. Significant estimates and judgments are required in determining our worldwide provision for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. The ultimate amount of tax liability may be uncertain as a result.

Capital Expenditures. We invest in manufacturing equipment, software design tools and other tangible and intangible assets for capacity expansion and technology improvement. Capacity expansions and technology improvements typically occur in anticipation of seasonal increases in demand. We typically pay for capital expenditures in partial installments with portions due on order, delivery and final acceptance. Our capital expenditures include our payments for the purchase of property, plant and equipment as well as payments for the registration of intellectual property rights.

Inventories. We monitor our inventory levels in light of product development changes and market expectations. We may be required to take additional charges for quantities in excess of demand, cost in excess of market value and product age. Our analysis may take into consideration historical usage, expected demand, anticipated sales price, new product development schedules, the effect new products might have on the sales of existing products, product age, customer design activity, customer concentration and other factors. These forecasts require us to estimate our ability to predict demand for current and future products and compare those estimates with our current inventory levels and inventory purchase commitments. Our forecasts for our inventory may differ from actual inventory use.

Principles of Consolidation. Our consolidated financial statements include the accounts of our company and our wholly-owned subsidiaries. All intercompany transactions and balances are eliminated in consolidation.

Segments. We operate in three segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Net sales and gross profit for the All other category primarily relate to certain business activities that do not constitute operating or reportable segments.

Table of Contents

Results of Operations Comparison of Three Months Ended June 30, 2011 and 2010

The following table sets forth consolidated results of operations for the three months ended June 30, 2011 and 2010:

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Net sales	$ 203.7	100.0%	$ 194.7	100.0%	$ 9.0
Cost of sales	137.5	67.5	130.2	66.9	7.3
Gross profit	66.2	32.5	64.5	33.1	1.6
Selling, general and administrative expenses	17.5	8.6	16.0	8.2	1.5
Research and development expenses	20.6	10.1	20.5	10.6	0.1
Restructuring and impairment charges	2.5	1.2	0.3	0.1	2.2
Operating income	25.6	12.6	27.8	14.3	(2.1)
Interest expense, net	(6.4)	(3.1)	(6.6)	(3.4)	0.2
Foreign currency gain (loss), net	18.2	9.0	(48.3)	(24.8)	66.5
Loss on early extinguishment of senior notes	(4.1)	(2.0)			(4.1)
Others	0.2	0.1	(1.0)	(0.5)	1.2
	8.0	3.9	(55.8)	(28.6)	63.7
Income (loss) before income taxes	33.6	16.5	(28.0)	(14.4)	61.6
Income tax expenses	2.0	1.0	2.7	1.4	(0.8)
Net income (loss)	$ 31.6	15.5%	$ (30.7)	(15.8)%	$ 62.4

Net Sales

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Display Solutions	$ 82.7	40.6%	$ 80.6	41.4%	$ 2.1
Power Solutions	23.7	11.7	12.0	6.2	11.7
Semiconductor Manufacturing Services	96.5	47.4	101.6	52.2	(5.1)
All other	0.8	0.4	0.5	0.3	0.3
	$ 203.7	100.0%	$ 194.7	100.0%	$ 9.0

Net sales were $203.7 million for the three months ended June 30, 2011, a $9.0 million, or 4.6%, increase, compared to $194.7 million for the three months ended June 30, 2010. This increase was primarily due to higher net sales driven by our Power Solutions segment and our Display Solutions segment, which was offset in part by a decrease in net sales from our Semiconductor Manufacturing Services segment.

Table of Contents

Display Solutions. Net sales from our Display Solutions segment were $82.7 million for the three months ended June 30, 2011, a $2.1 million, or 2.6%, increase from $80.6 million for the three months ended June 30, 2010. The increase was primarily due to a sales volume increase related to higher demand for certain consumer electronics products such as digital televisions, PCs and smart phones. This increase was partially offset by a decrease in average selling prices due to consumer price declines for LCD televisions, PC monitors and mobile devices.

Power Solutions. Net sales from our Power Solutions segment were $23.7 million for the three months ended June 30, 2011, an $11.7 million, or 97.2%, increase from $12.0 million for the three months ended June 30, 2010. The increase was primarily due to an increase in sales volume and an increase in average selling prices driven by an improved product mix and higher demand for MOSFET products from existing and new customers as we grew this business.

Semiconductor Manufacturing Services. Net sales from our Semiconductor Manufacturing Services segment were $96.5 million for the three months ended June 30, 2011, a $5.1 million, or 5.0%, decrease compared to net sales of $101.6 million for the three months ended June 30, 2010. This decrease was primarily due to a decrease in sales volume for certain product groups.

All Other. Net sales from All other were $0.8 million for the three months ended June 30, 2011, a $0.3 million, or 49.0%, increase compared to $0.5 million for the three months ended June 30, 2010. This increase resulted from the disposal of waste materials.

Net Sales by Geographic Region

The following table sets forth our net sales by geographic region and the percentage of total net sales represented by each geographic region for the three months ended June 30, 2011 and 2010:

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Korea	$ 99.3	48.8%	$ 101.3	52.0%	$ (2.0)
Asia Pacific	59.6	29.3	52.7	27.1	6.9
Japan	18.5	9.1	12.8	6.6	5.7
North America	20.7	10.2	23.7	12.2	(3.0)
Europe	5.0	2.5	4.0	2.1	1.0
Africa	0.6	0.3	0.2	0.1	0.4
	$ 203.7	100.0%	$ 194.7	100.0%	$ 9.0

Net sales in Asia Pacific for the three months ended June 30, 2011 increased from $52.7 million to $59.6 million compared to the three months ended June 30, 2010, or by $6.9 million, or 13.1%, primarily due to increased demand in the market for Power Solution products. Net sales in Japan for the three months ended June 30, 2011 increased from $12.8 million to $18.5 million compared to the three months ended June 30, 2010, or by $5.7 million, or 44.2%, primarily due to increased demand in the market for Display Solution products.

Table of Contents

Gross Profit

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Display Solutions	$ 24.7	29.9%	$ 22.1	27.5%	$ 2.6
Power Solutions	5.6	23.6	2.4	20.3	3.2
Semiconductor Manufacturing Services	35.1	36.4	39.5	38.8	(4.3)
All other	0.8	100.0	0.5	100.0	0.3
	$ 66.2	32.5%	$ 64.5	33.1%	$ 1.6

Total gross profit was $66.2 million for the three months ended June 30, 2011 as compared to $64.5 million for the three months ended June 30, 2010, a $1.6 million, or 2.6%, increase. Gross profit as a percentage of net sales for the three months ended June 30, 2011 was 32.5%, a decrease of 0.6% from 33.1% for the three months ended June 30, 2010. This increase in gross profit was primarily attributable to an increase in average selling prices in our Power Solutions segment and our Semiconductor Manufacturing Services segment, a significant volume increase in our Power Solutions segment, and an increase in other revenue. This increase was partially offset by a volume decrease in our Semiconductor Manufacturing Services segment.

Display Solutions. Gross margin for our Display Solutions segment for the three months ended June 30, 2011 increased to 29.9% compared to 27.5% for the three months ended June 30, 2010. This increase was primarily due to an increase in sales volume and a $0.4 million decreased in cost of sales, offset in part by lower average selling prices for the three months ended June 30, 2011 compared to the three months ended June 30, 2010. This decrease in cost of sales was primarily due to a decrease in material costs, partially offset by increased manufacturing costs including labor costs, subcontractor costs, and maintenance expenses.

Power Solutions. Gross margin for our Power Solutions segment for the three months ended June 30, 2011 increased to 23.6% compared to 20.3% for the three months ended June 30, 2010, primarily due to an increased sales volume and average selling prices. Cost of sales for the three months ended June 30, 2011 increased by $8.5 million compared to the three months ended June 30, 2010, caused by increased manufacturing costs including in material costs, labor costs, subcontractor costs and maintenance expenses.

Semiconductor Manufacturing Services. Gross margin for our Semiconductor Manufacturing Services segment decreased to 36.4% in the three months ended June 30, 2011 from 38.8% in the three months ended June 30, 2010. This decrease was primarily due to a decrease in sales volume, offset by an increase in average selling prices. Cost of sales for the three months ended June 30, 2011 decreased by $0.8 million compared to the three months ended June 30, 2010, which was primarily attributable to decreases in material costs, labor costs and overhead costs including maintenance, repair and supplies expense.

All Other. Gross margin for All other remained the same as there was no cost of sales in either period.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general, and administrative expenses were $17.5 million, or 8.6% of net sales, for the three months ended June 30, 2011, compared to $16.0 million, or 8.2% of net sales, for the three months ended June 30, 2010. The increase of $1.5 million, or 9.4%, was primarily attributable to a $0.7 million increase in salaries and related expenses resulting from an annual salary increase.

Research and Development Expenses. Research and development expenses were $20.6 million, or 10.1% of net sales, for the three months ended June 30, 2011, compared to $20.5 million, or 10.6% of net sales, for the three months ended June 30, 2010.

Restructuring and Impairment Charges. Restructuring and impairment charges for the three months ended June 30, 2011 were $2.5 compared to $0.3 million for the three months ended June 30, 2010. Restructuring charges of $1.6 million recorded for the three months ended June 30, 2011 were related to the closure of our research and development center in Japan. Impairment charges of $0.9 million for the three months ended June 30, 2011 consisted of $0.4 million from three abandoned in-process research and development projects and one dropped existing technology, $0.4 million from one abandoned system project and $0.1 million from impairment of tangible and intangible assets.

Operating Income

As a result of the foregoing, operating income decreased by $2.1 million, or 7.7%, in the three months ended June 30, 2011 compared to the three months ended June 30, 2010. As discussed above, the decrease in operating income primarily resulted from a $1.5 million increase in selling, general and administrative expenses and a $2.2 million increase in restructuring and impairment charges, which were partially offset by a $1.6 million increase in gross profit.

Other Income (Expense)

Interest Expense, Net. Net interest expense was $6.4 million during the three months ended June 30, 2011, a decrease of $0.2 million compared to $6.6 million for the three months ended June 30, 2010. Interest expense for the three months ended June 30, 2011 and 2010 was mainly incurred under our $250.0 million principal amount of senior notes issued on April 9, 2010. This decrease is attributable to the repurchase of $35.0 million out of an aggregate of $250.0 million of our senior notes on May 16, 2011.

Foreign Currency Gain (Loss), Net. Net foreign currency gain for the three months ended June 30, 2011 was $18.2 million compared to a net foreign currency loss of $48.3 million for the three months ended June 30, 2010. A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss recorded for intercompany borrowings at our Korean subsidiary and is affected by changes in the exchange rate between the Korean won and the U.S. dollar. Foreign currency translation gain from intercompany borrowings was included in determining our consolidated net income since the intercompany borrowings were not considered long-term investments in nature because management intended to repay these intercompany borrowings at their respective maturity dates. The Korean won to U.S. dollar exchange rates were 1,078.1:1 and 1,210.3:1 using the first base rate as of June 30, 2011 and June 30, 2010, respectively, as quoted by the Korea Exchange Bank.

Loss on early extinguishment of senior notes. On May 16, 2011, we repurchased $35.0 million out of $250.0 million aggregate principal amount of our senior notes. We recognized $4.1 million of loss on the early extinguishment of our senior notes, which consisted of $3.2 million from repurchase premium, $0.4 million from write-off of discounts, $0.2 million from write-off of debt issuance costs and $0.3 million from incurrence of direct legal and advisory service fees.

Others. Others were comprised of gains and losses on valuation of derivatives which were designated as hedging instruments. Net gain on valuation of derivatives for the three months ended June 30, 2011 represents either hedge ineffectiveness or components of changes in fair value of derivatives excluded from the assessments of hedge effectiveness.

Income Tax Expenses.

Income tax expenses for the three months ended June 30, 2011 were $2.0 million compared to $2.7 million for the three months ended June 30, 2010. This decrease was primarily attributable to a $0.9 million decrease in current income tax expense, net incurred in various jurisdictions in which our overseas subsidiaries are located. The majority of income tax expenses for the three months ended June 30, 2011 was comprised of $1.6 million of withholding taxes mostly accrued on intercompany interest payments, which would be utilized as foreign tax credits, but due to the uncertainty of utilization, full valuation allowance was recognized, and a $0.3 million income tax effect from the change of deferred tax assets.

Net Income

As a result of the foregoing, net income increased by $62.4 million in the three months ended June 30, 2011 compared to the three months ended June 30, 2010. As discussed above, the increase primarily resulted from an increase in foreign currency gain and a decrease in income tax expenses, partially offset by a loss on early extinguishment of senior notes.

Table of Contents

Results of Operations — Comparison of Six Months Ended June 30, 2011 and 2010

The following table sets forth consolidated results of operations for the six months ended June 30, 2011 and 2010:

	Six Months Ended June 30, 2011		Six Months Ended June 30, 2010		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Net sales	$ 391.6	100.0%	$ 374.2	100.0%	$ 17.4
Cost of sales	268.9	68.7	260.3	69.6	8.7
Gross profit	122.7	31.3	113.9	30.4	8.8
Selling, general and administrative expenses	32.9	8.4	33.9	9.1	(1.0)
Research and development expenses	39.1	10.0	41.1	11.0	(2.0)
Restructuring and impairment charges	2.5	0.6	0.6	0.2	1.9
IPO incentive	12.1	3.1			12.1
Operating income	36.1	9.2	38.3	10.2	(2.3)
Interest expense, net	(13.5)	(3.4)	(8.6)	(2.3)	(4.9)
Foreign currency gain (loss), net	39.6	10.1	(26.7)	(7.1)	66.3
Loss on early extinguishment of senior notes	(4.1)	(1.0)			(4.1)
Others	0.4	0.1	(1.0)	(0.3)	1.4
	22.4	5.7	(36.3)	(9.7)	58.6
Income before income taxes	58.4	14.9	2.1	0.6	56.4
Income tax expenses	4.3	1.1	1.7	0.5	2.6
Net income	$ 54.1	13.8%	$ 0.4	0.1%	$ 53.7

Net Sales

	Six Months Ended June 30, 2011		Six Months Ended June 30, 2010		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Display Solutions	$ 157.2	40.1%	$ 157.3	42.0%	$ (0.1)
Power Solutions	44.2	11.3	21.1	5.6	23.1
Semiconductor Manufacturing Services	188.7	48.2	194.8	52.1	(6.0)
All other	1.5	0.4	1.0	0.3	0.5
	$ 391.6	100.0%	$ 374.2	100.0%	$ 17.4

Net sales were $391.6 million for the six months ended June 30, 2011, a $17.4 million, or 4.7%, increase, compared to $374.2 million for the six months ended June 30, 2010. This increase was primarily due to higher net sales driven by our Power Solutions segment, which was offset in part by a decrease in net sales from our Semiconductor Manufacturing Services segment.

Table of Contents

Display Solutions. Net sales from our Display Solutions segment were $157.2 million for the six months ended June 30, 2011, a $0.1 million, or 0.1%, decrease from $157.3 million for the six months ended June 30, 2010. Average selling prices decreased for the six month period ended June 30, 2011 compared to the six month period ended June 30, 2010, which was offset by an increase in sales volume.

Power Solutions. Net sales from our Power Solutions segment were $44.2 million for the six months ended June 30, 2011, a $23.1 million, or 109.5%, increase from $21.1 million for the six months ended June 30, 2010. The increase was primarily due to an increase in sales volume and an increase in average selling prices driven by an improved product mix and higher demand for MOSFET products from existing and new customers as we grew this business.

Semiconductor Manufacturing Services. Net sales from our Semiconductor Manufacturing Services segment were $188.7 million for the six months ended June 30, 2011, a $6.0 million, or 3.1%, decrease compared to net sales of $194.8 million for the six months ended June 30, 2010. This decrease was primarily due to a decrease in sales volume for certain product groups.

All Other. Net sales from All other were $1.5 million for the six months ended June 30, 2011, a $0.5 million, or 49.4%, increase compared to $1.0 million for the six months ended June 30, 2010. This increase resulted from the disposal of waste materials.

Net Sales by Geographic Region

The following table sets forth our net sales by geographic region and the percentage of total net sales represented by each geographic region for the six months ended June 30, 2011 and 2010:

	Six Months Ended June 30, 2011		Six Months Ended June 30, 2010		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Korea	$ 186.8	47.7%	$ 199.0	53.2%	$ (12.2)
Asia Pacific	116.9	29.8	101.2	27.0	15.7
Japan	31.8	8.1	23.0	6.1	8.8
North America	46.6	11.9	44.1	11.8	2.6
Europe	8.0	2.0	6.8	1.8	1.2
Africa	1.5	0.4	0.2	0.1	1.3
	$ 391.6	100.0%	$ 374.2	100.0%	$ 17.4

Net sales in Korea for the six months ended June 30, 2011 decreased from $199.0 million to $186.8 million compared to the six months ended June 30, 2010, or by $12.2 million, or 6.1%, primarily due to decreased demand in the market for Semiconductor Manufacturing Services products. Net sales in Asia Pacific for the six months ended June 30, 2011 increased from $101.2 million to $116.9 million compared to the six months ended June 30, 2010, or by $15.7 million, or 15.5%, primarily due to increased demand in the market for Power Solution products.

Table of Contents

Gross Profit

	Six Months Ended June 30, 2011		Six Months Ended June 30, 2010		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Display Solutions	$ 44.5	28.3%	$ 36.6	23.2%	$ 8.0
Power Solutions	8.2	18.5	4.0	19.0	4.2
Semiconductor Manufacturing Services	68.4	36.2	72.3	37.1	(3.9)
All other	1.5	100.0	1.0	100.0	0.5
	$ 122.7	31.3%	$ 113.9	30.4%	$ 8.8

Total gross profit was $122.7 million for the six months ended June 30, 2011 as compared to $113.9 million for the six months ended June 30, 2010, an $8.8 million, or 7.7%, increase. Gross profit as a percentage of net sales for the six months ended June 30, 2011 was 31.3%, an increase of 0.9% from 30.4% for the six months ended June 30, 2010. This increase in gross margin was primarily attributable to an increase in average selling prices in our Power Solutions segment and our Semiconductor Manufacturing Services segment, a significant volume increase in our Power Solutions segment and an increase in other revenue. This increase was partially offset by a volume decrease in our Semiconductor Manufacturing Services segment.

Display Solutions. Gross margin for our Display Solutions segment for the six months ended June 30, 2011 increased to 28.3% compared to 23.2% for the six months ended June 30, 2010, primarily due to decreased cost of sales, which decreased by $8.1 million for the six months ended June 30, 2011 compared to the six months ended June 30, 2010. This decrease in cost of sales was mainly due to a decrease in unit cost of sales resulting from higher utilization of our manufacturing facilities and improved product mix, and a decrease in material costs and subcontractor costs, partially offset by increased depreciation costs.

Power Solutions. Gross margin for our Power Solutions segment for the six months ended June 30, 2011 decreased to 18.5% compared to 19.0% for the six months ended June 30, 2010. However, gross profit increased by $4.2 million due to increased sales volume and average selling prices. Cost of sales for the six months ended June 30, 2011 increased by $18.9 million compared to the six months ended June 30, 2010, primarily due to increased manufacturing costs including material costs, labor costs, depreciation costs, subcontractor costs and maintenance expenses due to the increased sales volume.

Semiconductor Manufacturing Services. Gross margin for our Semiconductor Manufacturing Services segment decreased to 36.2% in the six months ended June 30, 2011 from 37.1% in the six months ended June 30, 2010. This decrease was primarily due to a decrease in product sales volume, offset by an increase in average selling prices. Cost of sales for the six months ended June 30, 2011 decreased by $2.1 million compared to the six months ended June 30, 2010, which was primarily attributable to decreased overhead costs related to maintenance, repair and supplies expense, and labor costs.

All Other. Gross margin for All other remained the same as there was no cost of sales in either period.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general, and administrative expenses were $32.9 million, or 8.4% of net sales, for the six months ended June 30, 2011, compared to $33.9 million, or 9.1% of net sales, for the six months ended June 30, 2010. The decrease of $1.0 million, or 3.0%, was primarily attributable to a decrease in amortization expense, offset by an increase in salaries and related expenses resulting from an annual salary increase and a decrease in gain from the disposal of other assets.

Research and Development Expenses. Research and development expenses were $39.1 million, or 10.0% of net sales, for the six months ended June 30, 2011, compared to $41.1 million, or 11.0% of net sales, for the six months ended June 30, 2010. The decrease of $2.0 million, or 4.8%, was due to a decrease in amortization, partially offset by an increase in salaries and related expenses resulting from an annual salary increase and an increase in outside service fees.

Restructuring and Impairment Charges. Restructuring and impairment charges for the six months ended June 30, 2011 were $2.5 million compared to $0.6 million for the six months ended June 30, 2010. Restructuring charges of $1.6 million recorded for the six months ended June 30, 2011 were related to the closure of our research and development center in Japan. Impairment charges of $0.9 million for the six months ended June 30, 2011 consisted of $0.4 million from three abandoned in-process research and development projects and one dropped existing technology, $0.4 million from one abandoned system project and $0.1 million from impairment of tangible and intangible assets.

Table of Contents

IPO Incentive. We previously stated our intention to use part of the net proceeds from the IPO to make incentive payments to all employees, excluding management. The payment of such employee incentives was contingent upon the consummation of the IPO. We paid the IPO incentives in March 2011.

Operating Income

As a result of the foregoing, operating income decreased by $2.3 million, or 5.9%, in the six months ended June 30, 2011 compared to the six months ended June 30, 2010. As discussed above, the decrease in operating income primarily resulted from the payment of a $12.1 million IPO incentive, a $1.9 million increase in restructuring and impairment charges, which were partially offset by a $1.0 million decrease in selling, general and administrative expenses, a $2.0 million decrease in research and development expenses, and an $8.8 million increase in gross profit.

Other Income (Expense)

Interest Expense, Net. Net interest expense was $13.5 million during the six months ended June 30, 2011, an increase of $4.9 million compared to $8.6 million for the six months ended June 30, 2010. Interest expense for the six months ended June 30, 2011 was mainly incurred under our $250.0 million principal amount of senior notes issued on April 9, 2010 and interest expense for the six months ended June 30, 2010 was incurred under our $61.6 million principal amount of new term loan.

Foreign Currency Gain (Loss), Net. Net foreign currency gain for the six months ended June 30, 2011 was $39.6 million compared to a net foreign currency loss of $26.7 million for the six months ended June 30, 2010. A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss recorded for intercompany borrowings at our Korean subsidiary and is affected by changes in the exchange rate between the Korean won and the U.S. dollar. Foreign currency translation gain from intercompany borrowings was included in determining our consolidated net income since the intercompany borrowings were not considered long-term investments in nature because management intended to repay these intercompany borrowings at their respective maturity dates. The Korean won to U.S. dollar exchange rates were 1,078.1:1 and 1,210.3:1 using the first base rate as of June 30, 2011 and June 30, 2010, respectively, as quoted by the Korea Exchange Bank.

Loss on early extinguishment of senior notes. On May 16, 2011, we repurchased $35.0 million out of $250.0 million aggregate principal amount of our senior notes. We recognized $4.1 million of loss on early extinguishment of our senior notes, which consisted of $3.2 million from repurchase premium, $0.4 million from write-off of discounts, $0.2 million from write-off of debt issuance costs and $0.3 million from incurrence of direct legal and advisory service fees.

Others. Others were comprised of gains and losses on valuation of derivatives which were designated as hedging instruments. Net gain on valuation of derivatives for the six months ended June 30, 2011 represents either hedge ineffectiveness or components of changes in fair value of derivatives excluded from the assessments of hedge effectiveness.

Income Tax Expenses.

Income tax expenses for the six months ended June 30, 2011 were $4.3 million compared to $1.7 million for the six months ended June 30, 2010. This increase was primarily attributable to a $1.6 million reversal of liability for an uncertain tax position recorded for the six months ended June 30, 2010 due to the lapse of the applicable statute of limitations and a $0.9 million increase of withholding taxes. The majority of income tax expenses for the six months ended June 30, 2011 was comprised of $3.1 million of withholding taxes mostly accrued on intercompany interest payments, which would be utilized as foreign tax credits, but due to the uncertainty of utilization, full valuation allowance was recognized, and a $0.8 million income tax effect from the change of deferred tax assets.

Net Income

As a result of the foregoing, net income increased by $53.7 million in the six months ended June 30, 2011 compared to the six months ended June 30, 2010. As discussed above, the increase primarily resulted from an increase in foreign currency gain and an increase in gross profit, partially offset by the payment of an IPO incentive in March 2011, a loss on early extinguishment of senior notes and an increase in interest expense.

Table of Contents

Additional Business Metrics Evaluated by Management

Adjusted EBITDA and Adjusted Net Income

We define Adjusted EBITDA as net income (loss) adjusted to exclude (i) depreciation and amortization, (ii) interest expense, net, (iii) income tax expenses, (iv) restructuring and impairment charges, (v) the increase in cost of sales resulting from the fresh-start inventory accounting step-up, (vi) stock-based compensation expense, (vii) foreign currency loss (gain), net, (viii) derivative valuation loss (gain), net, (ix) one-time incentive payments in connection with our IPO and (x) loss on early extinguishment of senior notes. See the footnotes to the table below for further information regarding these items. We present Adjusted EBITDA as a supplemental measure of our performance because:

- Adjusted EBITDA eliminates the impact of a number of items that may be either one time or recurring items that we do not consider to be indicative of our core ongoing operating performance;
- we believe that Adjusted EBITDA is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry;
- our investor and analyst presentations include Adjusted EBITDA; and
- we believe that Adjusted EBITDA provides investors with a more consistent measurement of period to period performance of our core operations, as well as a comparison of our operating performance to that of other companies in our industry.

We use Adjusted EBITDA in a number of ways, including:

- for planning purposes, including the preparation of our annual operating budget;
- to evaluate the effectiveness of our enterprise level business strategies;
- in communications with our board of directors concerning our consolidated financial performance; and
- in certain of our compensation plans as a performance measure for determining incentive compensation payments.

We encourage you to evaluate each adjustment and the reasons we consider them appropriate. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Adjusted EBITDA is not a measure defined in accordance with GAAP and should not be construed as an alternative to cash flows from operating activities or net income, as determined in accordance with GAAP. A reconciliation of net income to Adjusted EBITDA is as follows:

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
	(In millions)			
Net income (loss)	$ 31.6	$ 54.1	$ (30.7)	$ 0.4
Adjustments:				
Depreciation and amortization	15.4	29.3	14.5	30.0

Interest expense, net	6.4	13.5	6.6	8.6
Income tax expenses	2.0	4.3	2.7	1.7
Restructuring and impairment charges[a]	2.5	2.5	0.3	0.6
Inventory step-up[b]				0.9
Stock-based compensation expense[c]	0.6	1.2	1.3	2.8
Foreign currency loss (gain), net[d]	(18.2)	(39.6)	48.3	26.7
Derivative valuation loss (gain), net[e]	(0.2)	(0.4)	1.0	1.0
One-time IPO incentive[f]		12.1		
Loss on early extinguishment of senior notes[g]	4.1	4.1		
Adjusted EBITDA	$ 44.1	$ 81.3	$ 43.8	$ 72.6

(a) This adjustment eliminates the impact of restructuring charges of $1.6 million related to the closure of our research and development center in Japan and impairment charges related to $0.4 million from three abandoned in-process research and development projects and one dropped existing technology, $0.4 million from one abandoned system project and $0.1 million from impairment of tangible and intangible assets for the three months ended June 30, 2011. We do not believe these restructuring and impairment charges are indicative of our core ongoing operating performance because we do not anticipate similar market driven events in our ongoing operations, although we cannot guarantee that similar events will not occur in the future.

(b) This adjustment eliminates the one-time impact on cost of sales associated with the write-up of our inventory in accordance with the principles of fresh-start accounting upon consummation of the Chapter 11 reorganization.

(c) This adjustment eliminates the impact of non-cash stock-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses, as supplemental information.

(d) This adjustment eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, as supplemental information.

(e) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in USD, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.

(f) This adjustment eliminates the one-time impact of incentive payments to all employees excluding management in connection with our IPO.

(g) This adjustment eliminates the impact of loss on repurchase of $35.0 million out of $250.0 million aggregate senior notes for the three months ended June 30, 2011.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;